Alberta

2014-15 **First Quarter**
Fiscal Update and Economic Statement

The **Building Alberta** Plan

August 2014

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NOTE: Amounts presented in tables may not add to totals due to rounding.

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2014–15 FIRST QUARTER FISCAL UPDATE

For the first three months of 2014–15

Method of Consolidation

The Fiscal Plan basis reported in the *2014-15 First Quarter Fiscal Update and Economic Statement* reports on the same scope, using the same method of consolidation, as presented in *Budget 2014*.

The results of all government departments, funds and agencies, except those designated as government business enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of provincial agencies designated as government business enterprises are included on the modified equity basis, computed in accordance with International Financial Reporting Standards applicable to those entities.

The Consolidated Financial Statements basis reported in the Government of Alberta Annual Report adds the annual non-cash change in pension provisions, and the accounts of the Alberta Innovates corporations, Alberta Environmental Monitoring, Evaluation and Reporting Agency and the Crown-controlled SUCH sector organizations (school boards, universities, colleges, technical institutes, and health entities) that are controlled by the government, on a line-by-line basis. Adjustments have been added to reflect the forecast net consolidated impact to the Fiscal Plan basis bottom line of pension provisions and the various excluded entities, in order to provide a forecast of the 2014-15 results on the Consolidated Financial Statements basis.

Basis of Financial Reporting

The consolidated fiscal summary reports revenue (including gains from disposal of tangible capital assets), expense (including amortization, loss on disposal and write-down of tangible capital assets), and surplus / (deficit).

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue.

Transfers received for capital purposes, and donated capital assets, are recorded as revenue as the cash is used to acquire capital assets and the donated assets are added to the balance sheet. The accounting policy followed in the Consolidated Financial Statements is to record a "deferred capital contribution," similar to a liability, when the cash or asset is received, and to recognize the revenue over the related asset's useful life (in effect matching the asset's amortization expense). This difference in accounting policy is eliminated through the adjustments referred to previously.

Expense includes the province's cash payments towards the unfunded pension liabilities. Expense on the Fiscal Plan basis excludes the change in the unfunded pension liabilities, which is a non-cash expense. This is included in expense on the Consolidated Financial Statements basis, and an adjustment is made as noted previously.

Debt servicing costs include interest payable, and amortization of issue costs and discounts / premiums on debt issues.

Compliance with Legislation

The *Fiscal Management Act* requires reporting on the Fiscal Plan basis actual results for the first three months of the fiscal year (April 1 to June 30), on or before August 31. The Act gives the President of Treasury Board and Minister of Finance discretion over the form of the report.

The *2014-15 First Quarter Fiscal Update and Economic Statement* provides comparisons between the three month estimates and actual results for: revenue and operational expense; the operational surplus / (deficit); the Capital Plan; and financing (borrowing) requirements. An updated Alberta economic outlook, with associated assumptions, is also provided.

The report also now includes forecasts for the full fiscal year for these, as well as for total expense, the resulting change in net assets and a balance sheet on the Fiscal Plan basis. An estimate of the surplus / (deficit) on the Consolidated Financial Statements basis has been added.

Under the *Fiscal Management Act*, operating expense increases, excluding those for dedicated revenue-operating expense, collective bargaining or other remuneration settlements, or settlements with First Nations, are limited to 1% of total budgeted ministry operating expense. Actual operational expense for a fiscal year also cannot exceed operational revenue plus any amounts allocated from the Contingency Account.

This report, and results for the first three months of 2014-15, are in compliance with the requirements of the *Fiscal Management Act*.

2014-15 FIRST QUARTER FISCAL UPDATE

Fiscal Plan Highlights

Income Statement

On the Fiscal Plan basis, actual results for the first three months (April to June) of 2014-15 produced an operational surplus of $2.6 billion, $1.1 billion higher than estimated in *Budget 2014*, due primarily to increased revenue, and decreased operating expense from timing of grant programs. The operational surplus for the fiscal year is forecast at $3.2 billion, a $524 million increase from budget.

The change in net assets (surplus / deficit) is revenue minus total expense. Total expense is operational expense plus capital grants and capital debt servicing costs. The surplus / deficit is forecast at $1.4 billion, $298 million higher than budget. The improvement from budget is mainly due to higher revenue partly offset by increased operating, endowment, 2013 flood assistance and capital grant expense.

On the Consolidated Financial Statements basis (includes revenue and expense of SUCH sector entities, environmental monitoring agency and Alberta Innovates corporations, and the change in pension provisions), results are forecast as a $767 million surplus, a $1.1 billion improvement from the $302 million 2013-14 deficit. A $660 million decrease in the change in pension provisions, which were unusually high in 2013-14, and an increase of $630 million in the Fiscal Plan basis surplus, are partly offset by a $221 million deterioration in the net adjustment for the SUCH sector, primarily from higher expense.

Revenue is forecast to be $45.3 billion, $915 million higher than estimated in *Budget 2014*.

- The resource revenue forecast has been increased by $612 million to $9.8 billion, mainly due to higher forecasts for oil and gas prices and a lower light-heavy oil price differential, partly offset by higher gas processing costs, the impact on royalties of a higher exchange rate forecast, and lower land lease sales.
- The West Texas Intermediate oil price forecast has increased from budget by US$1.47 to $96.69 per barrel, and the light-heavy differential forecast has declined from 26% to 23%. The forecast Alberta Reference Price for gas has increased by 85 cents, to Cdn$4.14 per gigajoule, while the exchange rate has been increased by 1.5 cents, to 92.5US¢/Cdn$.
- The corporate income tax revenue forecast has increased $267 million from the *Budget 2014* estimate, to $5.8 billion. Higher-than-expected cash receipts at the end of 2013-14 elevate the base used for forecasting.
- Other notable revenue variances from *Budget 2014* include: increases of $57 million for the new Canada-Alberta Job Fund and $45 million in Other revenue, primarily from land sales for the Land Stewardship Fund and a land donation; decreases of $50 million in producer and federal government agriculture insurance premiums and a net $38 million in the Canada Health Transfer, mainly due to prior-years' adjustments.

Operational Expense is forecast at $40.8 billion, $328 million higher than estimated in *Budget 2014*.

- Operating expense is forecast at $38.6 billion, $153 million higher. Major increases include $57 million for the Canada-Alberta Job Fund, $41 million to combat Mountain Pine Beetle infestations, a total of $25 million in Municipal Affairs programs, including $6 million for increases to minimum monthly income levels for support for seniors living in lodges, and $12 million for wages in contracted agencies delivering adult disability services.
- Endowment fund expense is forecast $92 million higher, primarily due to increased Access to the Future Fund grants to post-secondary institutions for commitments made to match donations.
- 2013 Alberta flood assistance has increased $74 million mainly due to re-profiling of 2013-14 lapses.

Capital Grants are forecast to increase $340 million from budget, with $273 million for 2013 Alberta flood assistance and the remainder primarily for project re-profiling. The unallocated $200 million for flood mitigation, budgeted as capital investment, has now been allocated as capital grants.

Capital Plan debt servicing costs are estimated to be $51 million lower due to a drop of $2.8 billion in direct borrowing requirements.

Balance Sheet

The Contingency Account balance on March 31, 2015 remains as forecast, at $5 billion. As a result, surplus operational cash can be used to reduce direct borrowing for the Capital Plan.

Liabilities for capital projects on March 31, 2015 are forecast to be $11 billion, $2.8 billion lower than expected, due to: $0.5 billion higher operational surplus and a reduction of $1 billion in 2014-15 net cash requirements; additions of $1.3 billion from 2013-14 year-end results and $0.7 billion in cash borrowed for the Capital Plan last year but not spent; less $0.7 billion in increased 2014-15 Capital Plan spending.

FISCAL PLAN SUMMARY[a]

(millions of dollars)

Income Statement

Fiscal Plan basis

	First 3 months of 2014-15			Fiscal Year			Change from
				2013-14	2014-15		
	Estimate	Actual	Change	Actual	Budget	Forecast	Budget
Revenue, less:	**11,533**	**12,320**	**787**	**45,293**	**44,354**	**45,269**	**915**
Revenue received for capital purposes	(118)	(37)	81	(491)	(560)	**(611)**	(51)
Investment income retained by Heritage Fund	(74)	(90)	(16)	(193)	(297)	**(360)**	(63)
Allocation for Capital Plan debt servicing costs	(105)	(86)	19	(230)	(421)	**(370)**	51
Operational Revenue	**11,236**	**12,107**	**871**	**44,379**	**43,076**	**43,928**	**852**
Operational Expense							
Operating expense (net of in-year savings)	9,412	9,154	(258)	37,462	38,477	**38,630**	153
Endowment fund / account expense	36	29	(7)	191	243	**335**	92
Disaster / emergency assistance	-	17	17	142	200	**200**	-
2013 Alberta flood assistance	34	39	5	2,758	155	**229**	74
Amortization / inventory consumption / disposal losses	232	217	(15)	967	997	**998**	1
General debt servicing costs	90	87	(3)	360	360	**368**	8
Total Operational Expense	**9,804**	**9,543**	**(261)**	**41,880**	**40,432**	**40,760**	**328**
Operational Surplus / (Deficit)	**1,432**	**2,564**	**1,132**	**2,499**	**2,644**	**3,168**	**524**
Revenue				**45,293**	**44,354**	**45,269**	**915**
Total Operational Expense, plus:				**41,880**	**40,432**	**40,760**	328
Capital grants				**2,428**	**2,414**	**2,754**	340
Capital Plan debt servicing costs				**230**	**421**	**370**	(51)
Total Expense				**44,538**	**43,267**	**43,884**	**617**
Change in Net Assets (Surplus / (Deficit))				**755**	**1,087**	**1,385**	**298**

Consolidated Financial Statements basis

			Change from 2013-14
SUCH sector / Alberta Innovates corporation net revenue / expense adjustments	**(309)**	**(530)**	(221)
Pension provisions	**(748)**	**(88)**	660
Surplus / (Deficit)	**(302)**	**767**	**1,069**

Balance Sheet

Fiscal Plan basis

	At March 31			Change from
	2013-14	2014-15		
	Actual	Budget	Forecast	2013-14
Financial Assets				
Heritage Fund and endowment funds	18,562	18,939	19,000	438
Contingency Account	4,658	5,000	5,000	342
Self-supporting lending organizations	18,205	20,205	20,205	2,000
Other financial assets	12,663	13,673	11,519	(1,144)
Total Financial Assets	**54,088**	**57,817**	**55,724**	**1,636**
Liabilities				
Liabilities for capital projects	8,724	13,790	11,020	2,296
Self-supporting lending organizations	16,358	18,027	18,027	1,669
Other liabilities	7,729	6,985	7,355	(374)
Total Liabilities	**32,811**	**38,802**	**36,402**	**3,591**
Net Financial Assets	**21,277**	**19,015**	**19,322**	**(1,955)**
Capital assets	23,707	27,056	27,047	3,340
Net Assets on Fiscal Plan basis	**44,984**	**46,071**	**46,369**	**1,385**
Change in Net Assets	**755**	**1,087**	**1,385**	**630**

[a] The Fiscal Plan basis under the *Fiscal Management Act* does not include revenue or expense of Crown-controlled SUCH sector organizations, the environmental monitoring agency or Alberta Innovates corporations, or changes in pension liabilities, and requires reporting of an Operational Surplus / Deficit. Estimates of the change in net assets on the Fiscal Plan basis, and of the adjustments required to calculate the surplus / deficit on the Consolidated Financial Statements basis, have been added. The 2014-15 Budget asset and liability numbers have been restated to reflect 2013-14 Actual results.

REVENUE

(millions of dollars)

	First 3 months of 2014-15			Fiscal Year			Change from Budget
	Estimate	Actual	Change	2013-14 Actual	2014-15 Budget	2014-15 Forecast	
Income Taxes							
Personal income tax	2,729	2,728	(1)	10,537	11,153	**11,146**	(7)
Corporate income tax	1,347	1,414	67	5,488	5,495	**5,762**	267
	4,076	**4,142**	**66**	**16,025**	**16,648**	**16,908**	**260**
Other Taxes							
Education property tax	457	472	15	1,860	1,902	**1,902**	-
Tobacco tax	233	224	(9)	922	930	**930**	-
Fuel tax	232	227	(5)	925	965	**965**	-
Insurance taxes	93	94	1	359	381	**384**	3
Freehold mineral rights tax	33	43	10	146	134	**144**	10
Tourism levy	22	21	(1)	87	90	**90**	-
	1,070	**1,081**	**11**	**4,299**	**4,402**	**4,415**	**13**
Non-Renewable Resource Revenue							
Bitumen royalty	1,385	1,967	582	5,222	5,579	**6,085**	506
Crude oil royalty	566	748	182	2,476	2,019	**2,245**	226
Natural gas and by-products royalty	216	296	80	1,103	823	**788**	(35)
Bonuses and sales of Crown leases	172	97	(75)	588	623	**535**	(88)
Rentals and fees	42	43	1	173	153	**153**	-
Coal royalty	3	4	1	16	12	**15**	3
	2,384	**3,1[illegible]**	**770**	**9,578**	**9,209**	**9,821**	**612**
Transfers from Government of Canada							
Canada Health Transfer	933	923	(10)	2,612	3,731	**3,693**	(38)
Canada Social Transfer	366	366	-	1,410	1,463	**1,465**	2
Agriculture support programs	189	156	(33)	272	332	**315**	(17)
Labour market agreements	30	44	14	186	119	**177**	58
Infrastructure support	9	4	(5)	317	348	**356**	8
2013 Alberta flood assistance	-	-	-	1,582	-	-	-
Other	58	57	(1)	350	241	**238**	(3)
	1,585	**1,550**	**(35)**	**6,729**	**6,234**	**6,244**	**10**
Investment Income							
Alberta Heritage Savings Trust Fund	401	478	77	2,272	1,604	**1,604**	-
Endowment funds	69	84	15	393	277	**277**	-
Alberta Capital Finance Authority	69	73	4	278	278	**281**	3
Contingency Account	28	29	1	80	110	**105**	(5)
Agriculture Financial Services Corporation	30	32	2	118	124	**124**	-
Other	20	23	3	84	79	**79**	-
	617	**719**	**102**	**3,225**	**2,472**	**2,469**	**(3)**
Net Income from Government Business Enterprises							
AGLC - Gaming / lottery	371	378	7	1,484	1,483	**1,483**	-
AGLC - Liquor	186	195	9	747	745	**745**	-
Alberta Treasury Branches	78	84	6	280	310	**310**	-
Other	7	8	1	30	28	**28**	-
	642	**665**	**23**	**2,541**	**2,566**	**2,566**	**-**
Premiums, Fees and Licences							
Motor vehicle licences	129	128	(1)	492	515	**515**	-
Crop, hail and livestock insurance premiums	301	253	(48)	379	343	**310**	(33)
Energy industry levies	248	234	(14)	215	260	**260**	-
Land titles	22	23	1	86	88	**88**	-
Land and grazing	17	13	(4)	75	69	**69**	-
Supplementary health benefits premiums	13	12	(1)	50	53	**53**	-
Other	108	100	(8)	412	416	**420**	4
	838	**763**	**(75)**	**1,709**	**1,744**	**1,715**	**(29)**
Other							
AIMCo investment management charges	56	68	12	248	225	**225**	-
Fines and penalties	34	35	1	137	136	**136**	-
Refunds of expense	33	40	7	205	141	**144**	3
Climate change and emissions management	15	27	12	106	60	**60**	-
Miscellaneous	183	76	(107)	491	521	**566**	45
	321	**246**	**(75)**	**1,187**	**1,083**	**1,131**	**48**
Total Revenue	**11,533**	**12,320**	**787**	**45,293**	**44,354**	**45,269**	**915**

OPERATING EXPENSE BY MINISTRY[a]

(millions of dollars)

	First 3 months of 2014-15			Fiscal Year			Change from Budget
	Estimate	Actual	Change	2013-14 Actual	2014-15 Budget	2014-15 Forecast	
Investing in Families and Communities							
Culture	37	47	10	156	173	**173**	-
Health	4,408	4,304	(104)	17,470	18,113	**18,113**	-
Human Services	1,028	1,029	1	3,875	4,083	**4,142**	59
Justice and Solicitor General	415	388	(27)	1,271	1,308	**1,310**	2
Municipal Affairs	128	114	(14)	413	454	**479**	25
Tourism, Parks and Recreation	37	42	5	162	175	**175**	-
Securing Alberta's Economic Future							
Education	1,516	1,472	(44)	6,301	6,505	**6,513**	8
Infrastructure	131	132	1	505	513	**519**	6
Innovation and Advanced Education	665	618	(47)	2,609	2,726	**2,726**	-
Jobs, Skills, Training and Labour	33	30	(3)	134	167	**183**	16
Service Alberta	52	58	6	236	235	**235**	-
Transportation	114	115	1	514	513	**513**	-
Treasury Board and Finance	341	357	16	1,556	1,381	**1,381**	-
Advancing World-leading Resource Stewardship							
Aboriginal Relations	50	39	(11)	165	201	**201**	-
Agriculture and Rural Development	107	96	(11)	752	917	**915**	(2)
Energy	164	156	(8)	673	678	**678**	-
Environment and Sustainable Resource Development	130	113	(17)	484	521	**560**	39
International and Intergovernmental Relations	10	6	(4)	32	39	**39**	-
Other							
Executive Council	12	11	(1)	41	51	**50**	(1)
Legislative Assembly	34	26	(8)	113	124	**125**	1
Less in-year savings	-		-	-	(400)	**(400)**	-
Total Operating Expense	**9,412**	**9,154**	**(258)**	**37,462**	**38,477**	**38,630**	**153**

[a] 2014-15 three month Estimate and 2014-15 Budget numbers have been restated to reflect transfers between government departments made subsequent to *Budget 2014*, as established by Order in Council 312/2014 under the *Government Organization Act*, on July 23, 2014. 2013-14 Actual numbers have been restated on the *Budget 2014* basis, adjusted for transfers between departments made after *Budget 2014*.

DISASTER / EMERGENCY ASSISTANCE EXPENSE

(millions of dollars)

	First 3 months of 2014-15			Fiscal Year			Change from Budget
	Estimate	Actual	Change	2013-14 Actual	2014-15 Budget	2014-15 Forecast	
Agriculture and Rural Development	-	1	1	2	2	**2**	-
Environment and Sustainable Resource Development	-	16	16	102	-	**130**	130
Municipal Affairs	-	-	-	38	-	**-**	-
Unallocated	-	-	-	-	198	**68**	(130)
Total	**-**	**17**	**17**	**142**	**200**	**200**	**-**
2013 Alberta flood assistance:							
Aboriginal Relations	1	-	(1)	193	5	**7**	2
Agriculture and Rural Development	1	-	(1)	-	17	**-**	(17)
Culture	4	-	(4)	4	7	**6**	(1)
Education	4	-	(4)	-	15	**7**	(8)
Environment and Sustainable Resource Development	3	2	(1)	1	13	**29**	16
Health	-	-	-	-	25	**25**	-
Human Services	5	1	(4)	65	8	**9**	1
Infrastructure	9	29	20	72	35	**104**	69
Municipal Affairs	7	5	(2)	2,416	28	**33**	5
Other	-	2	2	7	2	**9**	7
Total 2013 Alberta flood assistance	**34**	**39**	**5**	**2,758**	**155**	**229**	**74**
Total Disaster / Emergency Assistance	**34**	**56**	**22**	**2,900**	**355**	**429**	**74**

ENDOWMENT FUND / ACCOUNT EXPENSE

(millions of dollars)

	First 3 months of 2014-15			Fiscal Year			Change from Budget
	Estimate	Actual	Change	2013-14 Actual	2014-15 Budget	2014-15 Forecast	
Agriculture and Rural Development	2	1	(1)	-	9	9	-
Health	23	17	(6)	111	111	116	5
Innovation and Advanced Education	11	11	-	80	123	210	87
Total Endowment Fund / Account Expense	**36**	**29**	**(7)**	**191**	**243**	**335**	**92**

CAPITAL AMORTIZATION EXPENSE

(millions of dollars)

	First 3 months of 2014-15			Fiscal Year			Change from Budget
	Estimate	Actual	Change	2013-14 Actual	2014-15 Budget	2014-15 Forecast	
Investing in Families and Communities							
Culture	1	1	-	2	3	3	-
Health	4	5	1	17	18	18	-
Human Services	3	3	-	10	11	11	-
Justice and Solicitor General	6	4	(2)	17	24	24	-
Municipal Affairs	8	9	1	27	31	31	-
Tourism, Parks and Recreation	5	4	(1)	18	18	18	-
Securing Alberta's Economic Future							
Education	1	1	-	4	16	16	-
Infrastructure	25	25	-	98	101	101	-
Innovation and Advanced Education	2	2	-	5	6	6	-
Jobs, Skills, Training and Labour	-	-	-	2	-	-	-
Service Alberta	10	10	-	43	44	44	-
Transportation	115	111	(4)	431	459	459	-
Treasury Board and Finance	5	5	-	16	21	21	-
Advancing World-leading Resource Stewardship							
Agriculture and Rural Development	4	4	-	17	17	17	-
Energy	6	5	(1)	21	23	23	-
Environment and Sustainable Resource Development	9	8	1	34	37	37	-
Other							
Legislative Assembly	-	-	-	3	1	1	-
Total Amortization Expense	**204**	**196**	**(8)**	**764**	**832**	**832**	**-**

INVENTORY CONSUMPTION EXPENSE

(millions of dollars)

	First 3 months of 2014-15			Fiscal Year			Change from Budget
	Estimate	Actual	Change	2013-14 Actual	2014-15 Budget	2014-15 Forecast	
Health	9	9	-	45	52	52	-
Infrastructure	13	5	(8)	26	50	50	-
Service Alberta	1	3	2	12	6	6	-
Transportation	5	5	-	49	50	50	-
Other	-	-	-	17	4	4	-
Total Inventory Consumption Expense	**28**	**21**	**(7)**	**148**	**162**	**162**	**-**

DEBT SERVICING COSTS

(millions of dollars)

	First 3 months of 2014-15			Fiscal Year			Change from Budget
	Estimate	Actual	Change	2013-14 Actual	2014-15 Budget	2014-15 Forecast	
General							
Agriculture and Rural Development							
Agriculture Financial Services Corporation	18	17	(1)	68	73	**73**	-
Municipal Affairs							
Alberta Social Housing Corporation	3	3	-	12	10	**10**	-
Treasury Board and Finance							
General government	69	67	(2)	280	277	**285**	8
	90	**87**	**(3)**	**360**	**360**	**368**	**8**
Capital Plan							
Education							
School P3 financing costs	7	7	-	27	30	**30**	-
Transportation							
Ring road P3 financing costs	18	18	-	65	72	**72**	-
Treasury Board and Finance							
Direct borrowing for capital purposes	80	61	(19)	138	319	**268**	(51)
	105	**86**	**(19)**	**230**	**421**	**370**	**(51)**
Total Debt Servicing Costs	**195**	**173**	**(22)**	**590**	**781**	**738**	**(43)**

2014–15 FINANCING REQUIREMENTS[a]

(millions of dollars)

	First 3 months of 2014-15			Fiscal Year			Change from Budget
	Estimate	Actual	Change	2013-14 Actual	2014-15 Budget	2014-15 Forecast	
Financing Requirements / Completed to Date							
Direct borrowing for capital purposes	1,221	1,266	45	3,824	4,883	**2,092**	(2,791)
Re-financing of maturing debt	-	-	-	-	905	**905**	-
Term debt borrowing for provincial corporations:							
Agriculture Financial Services Corporation	86	100	14	220	345	**345**	-
Alberta Capital Finance Authority	475	1,231	756	3,738	1,900	**1,900**	-
Alberta Petroleum Marketing Commission	25	114	89	-	100	**114**	14
Alberta Treasury Branches	60	200	140	500	240	**240**	-
Total Financing Requirements / Completed to Date	**1,867**	**2,911**	**1,044**	**8,282**	**8,373**	**5,596**	**(2,777)**

[a] 2013-14 Actual direct borrowing for capital purposes includes $600 million issued on March 26, 2014, but settled on April 2, 2014.

INVENTORY ACQUISITION

(millions of dollars)

	First 3 months of 2014-15			Fiscal Year			Change from Budget
	Estimate	Actual	Change	2013-14 Actual	2014-15 Budget	2014-15 Forecast	
Health	5	10	5	44	52	**52**	-
Infrastructure	8	1	(7)	17	73	**78**	5
Service Alberta	1	3	2	12	6	**5**	(1)
Transportation	4	3	(1)	49	50	**50**	-
Other	-	-	-	13	3	**3**	-
Total Inventory Acquisition	**18**	**17**	**(1)**	**135**	**184**	**188**	**4**

Capital Plan Highlights

Capital Plan actual results for the first three months of 2014-15 were essentially on track with the overall estimate in *Budget 2014*, with spending of $1.8 billion $87 million lower than expected, mainly reflecting changes in project progress, re-profiling or timing of grants. No projects have been cancelled.

The 2014-15 Capital Plan is forecast at $7.3 billion, a $698 million increase from budget, primarily due to carrying over of 2013-14 projects and re-profiling, mainly of school projects.

Direct borrowing for the Capital Plan is now estimated at $2.1 billion. This is $2.8 billion lower than budget, due to improved 2013-14 operational results, cash borrowed in 2013-14 but not spent (retained in the Capital Plan financing account), and an increased forecast for available surplus operational cash in 2014-15, partially offset by the increased spending.

CAPITAL PLAN SUMMARY

(millions of dollars)

	First 3 months of 2014-15			Fiscal Year			Change from
				2013-14	2014-15		
Summary	Estimate	Actual	Change	Actual	Budget	Forecast	Budget
Capital Plan Spending	**1,895**	**1,808**	**(87)**	**5,002**	**6,599**	**7,297**	**698**
Capital Plan Financing							
Revenue received for capital purposes	118	37	(81)	491	560	**611**	51
Retained income of funds and agencies	42	42	-	50	169	**169**	-
Book value of capital asset disposals / other	4	4	-	76	14	**13**	(1)
Alternative financing (P3s)	52	52	-	332	206	**227**	21
Direct borrowing	1,221	1,266	45	3,824	4,883	**2,092**	(2,791)
Transfer of surplus operational cash	459	878	419	-	767	**3,512**	2,745
Capital Plan financing account withdrawal / (deposit)	-	(470)	(470)	229	-	**673**	673
Total Capital Plan Financing	**1,895**	**1,808**	**(87)**	**5,002**	**6,599**	**7,297**	**698**
By Ministry							
Investing in Families and Communities							
Culture	4	1	(3)	54	48	**48**	-
Health	9	2	(7)	80	111	**111**	-
Human Services	-	2	2	5	6	**7**	1
Infrastructure (health facilities)	96	39	(57)	373	817	**684**	(133)
Justice and Solicitor General	34	20	(14)	56	135	**138**	3
Municipal Affairs	900	1,225	325	1,383	1,573	**1,581**	8
Tourism, Parks and Recreation	4	2	(2)	18	20	**20**	-
Transportation (municipal support)	7	2	(5)	229	265	**265**	-
Securing Alberta's Economic Future							
Education	213	103	(110)	504	624	**1,153**	529
Infrastructure	32	29	(3)	232	305	**330**	25
Innovation and Advanced Education	201	169	(32)	70	246	**249**	3
Jobs, Skills, Training and Labour	-	-	-	1	1	**1**	-
Service Alberta	4	4	-	38	49	**64**	15
Transportation	288	146	(142)	1,388	1,696	**1,801**	105
Treasury Board and Finance	7	7	-	38	27	**27**	-
Advancing World-leading Resource Stewardship							
Aboriginal Relations	-	6	6	-	-	**9**	9
Agriculture and Rural Development	25	23	(2)	37	40	**42**	2
Energy	8	2	(6)	139	175	**175**	-
Environment and Sustainable Resource Development	24	2	(22)	148	94	**118**	24
Other - Legislative Assembly	1	-	(1)	5	4	**4**	-
2013 Alberta flood assistance							
Culture	-	-	-	1	2	**1**	(1)
Education	6	-	(6)	13	25	**24**	(1)
Environment and Sustainable Resource Development	6	19	13	174	26	**313**	287
Infrastructure	5	-	(5)	-	24	**10**	(14)
Municipal Affairs	8	1	(7)	12	32	**28**	(4)
Tourism, Parks and Recreation	2	4	2	-	9	**12**	3
Transportation	12	2	(10)	4	46	**84**	38
Mitigation projects	-	-	-	-	200	-	(200)
Total Capital Plan	**1,895**	**1,808**	**(87)**	**5,002**	**6,599**	**7,297**	**698**

[a] 2014-15 three month Estimate and 2014-15 Budget numbers have been restated to reflect transfers between government departments made subsequent to *Budget 2014*, as established by Order in Council 312/2014 under the *Government Organization Act*, on July 23, 2014. 2013-14 Actual numbers have been restated on the *Budget 2014* basis, adjusted for transfers between departments made after *Budget 2014*.

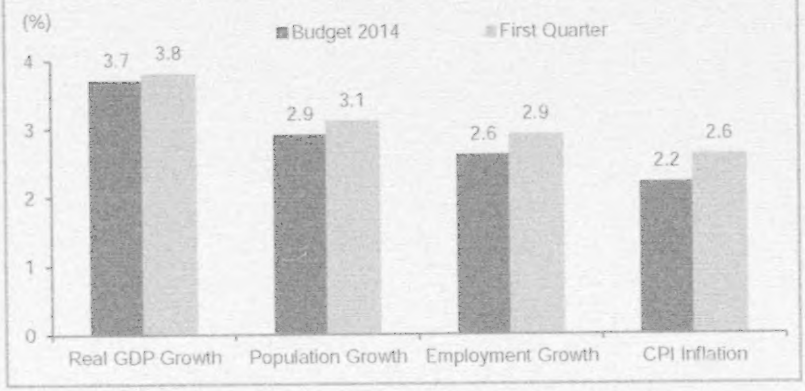
ECONOMIC OUTLOOK

Strength across the board

Alberta's economy is powering ahead after a strong 2013. The labour market continues to buck the national trend, leading all provinces in job growth this year and attracting large inflows of migrants to Alberta. This is putting pressure on the housing market, where starts have been trending higher. Business activity has picked up in the first half of 2014, with manufacturing shipments and exports accelerating. Higher natural gas prices have led to a rebound in rig activity.

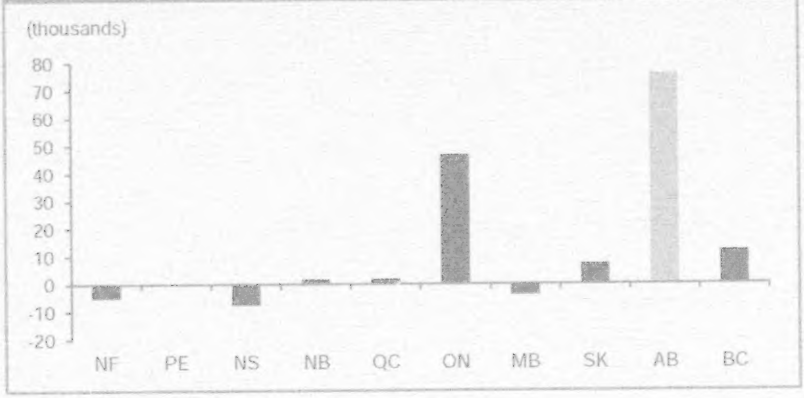
Based on recent headway, economic growth in 2014 and 2015 is forecast to be slightly higher than the strong outlook at *Budget 2014*. Real GDP is now expected to grow 3.8% in 2014 (Figure 1) and 3.1% in 2015. This reflects a stronger than expected labour market, continued migration into the province, and accelerated activity in the business sector. While costs have been contained so far (see pg. 14-15), inflation has picked up in the province and nationally.

Figure 1. 2014 Forecast for Key Alberta Indicators



Sources: Statistics Canada and Alberta Treasury Board and Finance

Figure 2. Year-to-date Employment Growth by Province*



Source: Statistics Canada
* January to July 2014 vs. January to July 2013

Alberta Household Sector

Persistent labour market growth

Alberta has been Canada's job engine, leading all provinces in job gains over the first half of 2014 (Figure 2). While employment growth has surged year-to-date, it is expected to stabilize over the remainder of 2014. Employment is now forecast to grow by 2.9% in 2014, up from the *Budget 2014* forecast of 2.6%. The labour force is keeping pace with employment gains, thanks to in-migration. The unemployment rate is now expected to average 4.6%, up slightly from 4.4% at *Budget 2014*, due to strong entry into the labour force.

Population forecast revised higher

Lured by better job prospects, Alberta remains a destination of choice for migrants. After a record-setting year in 2013, interprovincial migration has remained strong, and international migration is expected to be at record levels in 2014. From July 2013 to April 2014, the province gained around 62,400 people from other provinces and countries. As a result, the population is forecast to grow by 3.1% in 2014, up from 2.9% at *Budget 2014*. In 2015, population growth is expected to be 2.8%.

Housing market tightens

Alberta's residential market has surged, driven by strong gains in income and population. The rental market remains tight, with vacancy rates in the major urban centres extremely low. Housing starts are up a solid 8.9% over the first seven months of 2014. Activity is particularly strong in Calgary, where housing starts spiked in June in the face of historically low inventories and rising prices for new homes. Investment in multi-unit construction has been the main contributor to growth so far this year.

ECONOMIC OUTLOOK

The strength in residential investment was largely expected at *Budget 2014*. The forecast for housing starts has been adjusted up slightly, to 38,800 units in 2014 and 37,100 in 2015, reflecting higher year-to-date numbers.

Inflation picks up

Inflation has climbed in Alberta, due in large part to a spike in energy prices earlier in the year and increasing prices for food and accommodation. Rents and owned accommodation, including insurance and property taxes, are expected to add more to inflation in 2014 than in recent years. The forecast for consumer price inflation has increased for this year, from 2.2% at *Budget 2014* to 2.6%. For 2015, consumer prices are forecast to grow by 2.5%, up from 2.1% at *Budget 2014*.

Alberta Business Sector

Business activity remains robust

Alberta's business sector continues to see vibrant growth, with manufacturing shipments, exports, and production of crude oil products accelerating so far in 2014.

Exports and shipments are benefitting from strong oil prices, which have been tracking higher than forecast in *Budget 2014*. Despite lagging demand in the Atlantic basin and elevated global inventories, oil prices have been supported by global geopolitical turmoil. Heavy crude prices in Alberta have strengthened on strong demand and increased rail shipments, which have helped alleviate local pipeline bottlenecks. Exports, particularly for oil and manufacturing products, are forecast to be slightly stronger in 2014 and 2015, compared with *Budget 2014*. Imports have also been adjusted up due to strong consumer and business demand.

Conventional energy investment increases

Natural gas prices have strengthened in the first half of 2014, boosted by a particularly cold winter and historically low inventory levels. As a result, drilling activity has picked up considerably (Figure 3). The increase in natural gas spending has led to a slight upward revision of the forecast for mining and oil and gas investment in 2014. The 2015 estimate remains unchanged.

Overall investment in non-residential construction in the province is on track with the *Budget 2014* forecast. Commercial and institutional spending is up, which has more than offset a pullback in industrial spending.

Canadian dollar forecast adjusted up

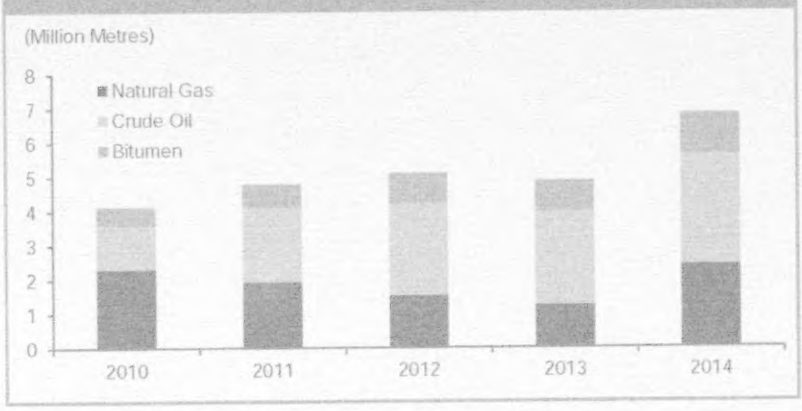
The Canadian dollar has appreciated since early 2014. This is in part due to a shift in expectations about interest rates, as Canadian inflation has been higher than expected. The exchange rate forecast for 2014/15 has been increased, from 91 US¢/Cdn$ at *Budget 2014* to 92.5 US¢/Cdn$.

External Risks

Global economic conditions are slowly improving, but with mixed results. The US economy is gaining momentum, while Eurozone growth has stalled and China has entered a period of slower growth. Given Alberta's high reliance on trade and commodities, the outlook is subject to a number of risks:

- A lack of spare pipeline capacity makes the price of oil produced in Alberta vulnerable to transportation and refinery disruptions.
- Financial markets have seen strong returns in the past couple of years. A market correction could drag down commodity prices and hamper global growth. Escalating geopolitical events, such as tensions in Ukraine or Iraq, could also dampen global economic growth and increase financial market volatility.
- A pick-up in global inflationary pressures could lift consumer prices more than forecast, while weaker-than-expected migration could put upward pressure on labour costs.
- There is upside risk for Alberta's outlook if employment, business investment, and housing maintain current momentum.

Figure 3. Total Metres Drilled in Alberta - January to May



Source: Alberta Energy Regulator

Key Energy and Economic Assumptions

Fiscal Year Assumptions	2013–14 Actual	2014-15 3 Month Actual	2014-15 Fiscal Year	
			Budget	1st Quarter
Prices				
Crude Oil Price				
WTI (US$/bbl)	99.05	102.99	95.22	96.69
Alberta Wellhead (Cdn$/bbl) [a]	91.23	100.85	88.02	91.54
WCS @ Hardisty (Cdn$/bbl)	80.11	90.44	77.18	80.64
Natural Gas Price				
Alberta Reference Price (Cdn$/GJ)	3.28	4.19	3.29	4.14
Production				
Conventional crude oil (000s barrels/day)	583	n/a	583	580
Raw bitumen (000s barrels/day)	2,221	n/a	2,347	2,344
Natural gas (billions of cubic feet)	4,524	n/a	3,737	3,837
Interest rates				
3-month Canada treasury bills (per cent)	0.95	0.93	1.00	1.00
10-year Canada bonds (per cent)	2.40	2.36	3.05	2.70
Exchange Rate (US¢/Cdn$)	94.9	91.7	91.0	92.5

Calendar Year Assumptions	2013 Estimates	2014 Year-to-Date	2014 Calendar Year		2015 Calendar Year	
			Budget	1st Quarter	Budget	1st Quarter
Gross Domestic Product						
Nominal (millions of dollars)	334,374[b]	n/a	352,143	359,994	368,690	371,702
per cent change	7.2[b]	n/a	6.1	7.7	4.7	3.3
Real (millions of 2007 dollars)	299,911[b]	n/a	308,980	311,339	318,162	321,009
per cent change	3.9[b]	n/a	3.7	3.8	3.0	3.1
Other Indicators						
Employment (thousands)	2,211	2,267[f]	2,268	2,275	2,317	2,325
per cent change	2.9	3.5[f]	2.6	2.9	2.2	2.2
Unemployment rate (per cent)	4.6	4.7[f]	4.4	4.6	4.3	4.5
Average Weekly Earnings (per cent change)	3.5	3.8[d]	3.4	3.6	3.5	3.6
Primary Household Income (per cent change)	7.8[b]	n/a	6.7	7.3	6.2	6.4
Net Corporate Operating Surplus (per cent change)	9.5[b]	n/a	8.4	16.0	4.0	-5.6
Housing starts (number of units)	36,011	39,490[f]	38,300	38,800	36,800	37,100
Alberta Consumer Price Index (per cent change)	1.4	2.7[e]	2.2	2.6	2.1	2.5
Population (July 1st, thousands)	4,025	4,112[c]	4,140	4,148	4,242	4,263
per cent change	3.5	3.2[c]	2.9	3.1	2.5	2.8

[a] Refers to the average price per barrel of Alberta light, medium and heavy oil.
[b] Alberta Treasury Board and Finance estimate.
[c] Population estimate as of April 1st, 2014; year-over-year growth rate
[d] January to May
[e] January to June
[f] January to July

COST PRESSURES IN ALBERTA

Cost escalation then and now

In 2012 and 2013, Alberta real GDP grew at an average annual rate of 3.9%. This is identical to average growth during 2004 to 2008. The major difference between now and then is that cost inflation was much higher in the earlier period, when demand for Alberta goods and services was greater than the economy's capacity to produce them, leading to rapid cost escalation.

This special feature looks at why costs have been contained this time around and whether this is likely to continue.

Key factors

- Inflation in 2004-2008 was driven by a near doubling of house prices, which pushed up shelter costs.
- Weak economic activity outside Alberta kept inflation low in 2012 and 2013.
- With fewer opportunities outside Alberta, migrants have been flooding in, curbing wage growth.

Consumer prices

In 2013, consumer prices in Alberta increased by 1.4%. This compares with 4.9% in 2007 at the height of the boom. There are two primary reasons for this difference. The first is shelter costs, which rose dramatically between 2005 and 2007, as rocketing home prices pushed up costs for homeowners and increased rents. The second is the national inflation rate, which has been much weaker than is typical.

Home prices drive inflation

The Alberta housing market started to heat up in 2005 and reached its pinnacle in 2007. Over the two years ending in July 2007, both the New Housing Price Index and the average price of existing homes increased by around 75%. This caused shelter costs to rise for home buyers in particular, but also for renters. The owned accommodation component of the Consumer Price Index (CPI) increased by 15% in each of 2006 and 2007, by far the largest contributor to inflation in both years. Excluding shelter costs, inflation in Alberta was only slightly more elevated than inflation nationally over this period.

Of the 3.4 percentage point difference between the inflation rate in 2007 and 2013, shelter costs account for well over half (Figure 1). Home prices during the post-recession expansion have grown at a much more sustainable rate. Though prices in Calgary have started to gain momentum, the growth rate is not substantially out of line with what prevailed before the boom.

Higher inflation mostly came through shelter because these costs are more responsive to local pressures. Most of the other components of the CPI basket are goods, which can be transported between regions to take advantage of local price differences. These prices are therefore more responsive to national and global conditions.

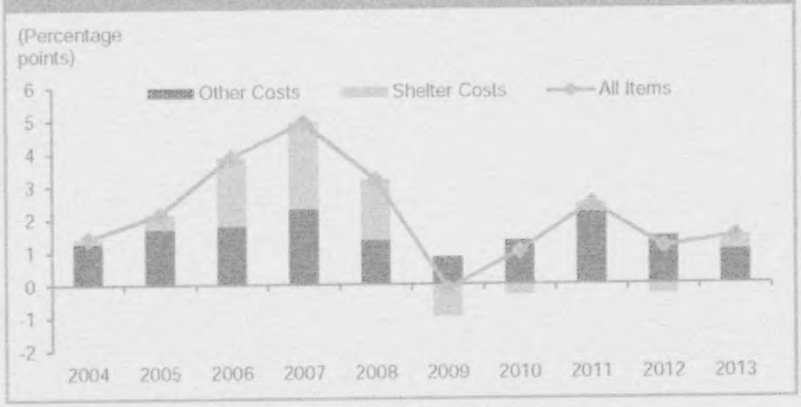
Weak activity outside Alberta

Part of the reason why inflation in Alberta was lower in 2013 than in 2007 is that inflation in Canada was lower. The national inflation rate was 2.1% in 2007, compared with just 0.9% in 2013.

Inflation has been low, in part, because of weak global demand, which has kept commodity prices in check. The BCPI, the Bank of Canada's trade-weighted commodity price index, grew by just 0.2% in 2013 after falling by 6.1% in 2012. This compares with a 6.7% increase in 2007 and an average annual increase of 16% over the 2004 to 2008 period.

While global price fluctuations can have transitory effects on Canadian dollar prices, underlying inflation is driven mostly by economic conditions in Canada. Economic growth in Canada since 2012 has been disappointing, averaging less than 2%. Labour market indicators point to further weakness, with the unemployment rate stubbornly staying around 7% and the employment rate near its recessionary low.

Figure 1. Contribution to Alberta Consumer Price Inflation



Sources: Statistics Canada and Alberta Treasury Board and Finance

COST PRESSURES IN ALBERTA

Construction costs

The construction industry's two largest inputs are labour and materials. Growth in both labour and materials costs has been much less pronounced during the current expansion. Labour costs have been contained of late by record levels of in-migration. Weaker job markets in other regions have increased the incentive to move to Alberta for work. Lower natural gas activity in the province, compared with the previous cycle, has also helped alleviate pressures on the labour market. Globally, weak demand has prevented commodity prices from rising, unlike 2004-2008, when commodity prices soared.

In-migration contains wage growth

In the last two years, the number of people coming to Alberta has exceeded those leaving by almost 175,000, the highest two-year net in-migration in history. The added supply of labour has tempered wage growth, and kept the unemployment rate from falling below 4%. While a lower unemployment rate is typically a good thing, if it is too low, wage growth accelerates, thereby increasing labour costs for businesses. These costs are often recouped through higher prices. This is exactly what happened in 2007 and 2008.

Over the 2004 to 2008 period, real output in the Alberta construction industry grew by almost 60%, fueled by development in the oil sands. This rapid build up in construction drew resources from the rest of the economy, bidding up wages and prices. With labour scarce, employers struggled to find qualified applicants, leading to mismatches and unfilled positions. Productivity declined; workers were paid more, but produced less per hour.

The combination of higher compensation and lower productivity during the boom period caused unit labour costs (the ratio of labour compensation to output) to rise at a far faster rate than either 2012 or 2013. Rising unit labour costs pushed up overall construction costs (Figure 2).

Alberta firms have learned from the 2004 to 2008 period and become more adept at managing costs. For example, modular construction allows more work to take place at assembly plants rather than on-site. This improves labour productivity by moving more construction into a controlled environment. It also saves on other costs, including transportation and accommodation for employees.

Material costs have been stable

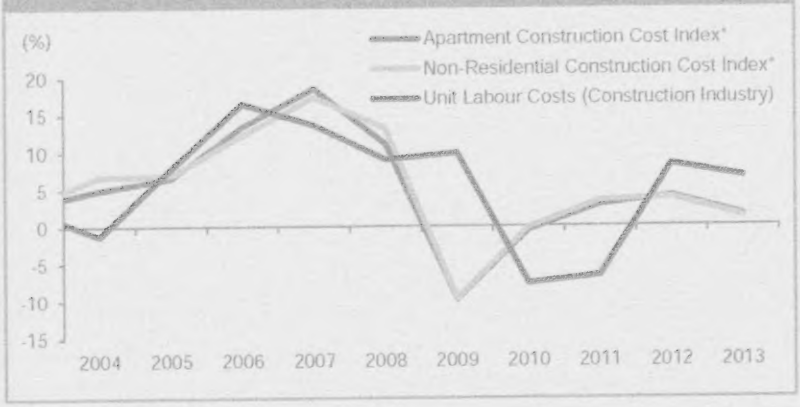
The same increase in commodity prices that led to the boom in Alberta, also increased the cost of materials to builders. The three largest goods inputs into construction are primary metals, fabricated metals and non-metallic mineral products. The metals and minerals component of the BCPI was flat over 2012 and 2013, largely because of weak global demand. By contrast, over the 2004 to 2008 period the same component increased at an average annual rate of 20%.

Are cost pressures returning?

Weak global activity has kept a lid on prices in the past few years, but pressures are emerging. In Alberta, consumer price inflation is expected to be 2.6% in 2014 and 2.5% in 2015, up from 1.4% in 2013 (see pg. 12). Wage growth, on the other hand, is expected to be only slightly higher than in 2013. Wages could be even stronger than forecast if it becomes more difficult to attract new workers, due for example to improving conditions outside Alberta.

Even if costs do grow faster than expected, a repeat of 2004-2008 is unlikely. During that period, rapidly growing global energy demand and fears about oil supply caused a huge increase in energy prices and a surge of investment into Alberta's oil and gas sector. Such large price increases are not expected, as emerging market growth has slowed and technological advances have unlocked vast reserves of oil and gas. Moreover, Alberta oil sands producers have already invested large amounts of capital and are shifting more to the production phase of development, which is less labour-intensive.

Figure 2. Annual Growth of Select Costs in Alberta



Source: Statistics Canada
* Average of Edmonton and Calgary